

SECURITIES AND

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**ANNUAL AUDITED REPORT  
FORM X-17A-5  
PART III**

FACING PAGE

Information Required of Brokers and Dealers Pursuant to Section 17 of the  
Securities Exchange Act of 1934 and Rule 17a-5 ThereunderREPORT FOR THE PERIOD BEGINNING 1/1/04 AND ENDING 12/31/04  
MM/DD/YY MM/DD/YY**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER:

Peyton, Chandler &amp; Sullivan, Inc.

OFFICIAL USE ONLY

FIRM I.D. NO.

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

720 Sunrise Avenue, Suite 100C

(No. and Street)

Roseville, CA 95661

(City)

(State)

(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

Reyheena Eidaous

(949) 283-5591

(Area Code - Telephone No.)

**B. ACCOUNTANT IDENTIFICATION**

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report\*

Mendoza Berger Company LLP

(Name - if individual, state last, first, middle name)

5500 Trabuco, Suite 150, Irvine, CA 92620

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

☒ Certified Public Accountant☐ Public Accountant☐ Accountant not resident in United States or any of its possessions

PROCESSED

MAR 23 2005

J THOMSON  
FINANCIAL

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\* Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See section 17a-5(c)(2).

SEC 1410 (3-91)

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a currently valid OMB control number.

## OATH OR AFFIRMATION

I, Reyheena Eidarous, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Peyton, Chandler & Sullivan, Inc., as of December 31, 2004, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:

None

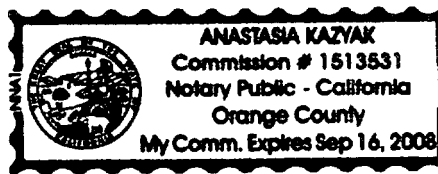
*R. Eidarous*

Signature

Fin-Op

Title

*Anastasia Kazyak*  
Notary Public



This report \*\* contains (check all applicable boxes):

- ☒ Independent Auditors' Report
- ☒ (a) Facing page.
- ☒ (b) Statement of Financial Condition.
- ☒ (c) Statement of Income (Loss).
- ☒ (d) Statement of Cash Flows.
- ☒ (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietor's Capital.
- ☐ (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- ☒ (g) Computation of Net Capital.
- ☐ (h) Computation of Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- ☐ (i) Information Relating to the Possession or Control Requirements Under Rule 15c3-3.
- ☐ (j) A Reconciliation, including appropriate explanation, of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- ☐ (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- ☒ (l) An Oath or Affirmation.
- ☐ (m) A copy of the SIPC Supplemental Report.
- ☐ (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.

\*\* For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).

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**MENDOZA  
BERGER  
COMPANY, L.L.P.**

Certified Public Accountants

**INDEPENDENT AUDITORS' REPORT**

Board of Directors  
Peyton, Chandler & Sullivan, Inc.  
Roseville, California

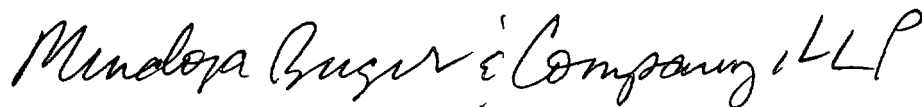
We have audited the accompanying statement of financial condition of Peyton, Chandler & Sullivan, Inc., a California corporation (the Company) as of December 31, 2004, and the related statements of operations, changes in stockholders' equity, and cash flows for the year then ended, that you are filing pursuant to rule 17a-5 under the Securities Exchange Act of 1934. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Peyton, Chandler & Sullivan, Inc. at December 31, 2004 and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained in Schedules I, II, III and IV is presented for purposes of additional analysis and is not a required part of the basic financial statements, but is supplementary information required by rule 17a-5 under the Securities Exchange Act of 1934. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

**Mendoza Berger & Company, LLP**



Irvine, California  
February 10, 2005

**PEYTON, CHANDLER & SULLIVAN, INC.**  
**STATEMENT OF FINANCIAL CONDITION**  
**DECEMBER 31, 2004**

**ASSETS**

Current assets:	
Cash	\$ 1,854
Accounts receivable, net of allowance for doubtful accounts of \$7,500	5,798
Securities owned (Note 3):	
Marketable securities	524,675
Prepaid expenses	2,685
	<hr/>
Total current assets	535,012
Property and equipment, at cost, net of accumulated depreciation (Note 4)	102,992
Deferred tax asset (Note 6)	60,000
Deposits	49,413
	<hr/>
Total assets	\$ 747,417
	<hr/>

**LIABILITIES AND STOCKHOLDERS' EQUITY**

Current liabilities:	
Accounts payable	\$ 14,269
Accrued liabilities	67,281
	<hr/>
Total current liabilities	81,550
Commitments and contingent liabilities (Note 7)	-
Stockholders' equity:	
Preferred stock, no par value, 10,000,000 shares authorized (Note 5):	
Series A, 88,144 shares issued and outstanding at	
December 31, 2004	308,500
Series B, 80,000 and 0 shares issued and outstanding at	
December 31, 2004, respectively	118,960
Common stock, no par value; 40,000,000 shares	
authorized, 18,280,085 shares issued and outstanding at	
December 31, 2004	367,800
Accumulated deficit	(129,393)
	<hr/>
Total stockholders' equity	665,867
	<hr/>
Total liabilities and stockholders' equity	\$ 747,417
	<hr/>

**PEYTON, CHANDLER & SULLIVAN, INC.**  
**STATEMENT OF OPERATIONS**  
**FOR THE YEAR ENDED DECEMBER 31, 2004**

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Revenues:	
Commissions	\$ 43,284
Realized gain on sale of securities	227,197
Unrealized gain on securities	733,850
Other income	<u>4,094</u>
Total revenues	<u>1,008,425</u>
Expenses:	
Employee compensation and benefits	258,365
Consulting expense	353,856
Fees and charges	6,190
Rent	15,460
Legal and professional fees	77,281
Communications	6,409
Depreciation	27,979
Travel	7,632
Office expense	5,011
Other	<u>6,933</u>
Total expenses	<u>765,116</u>
Income before provision for income taxes	<u>243,309</u>
Provision for income taxes (Note 6)	<u>103,800</u>
Net income	<u><u>\$ 139,509</u></u>

**PEYTON, CHANDLER & SULLIVAN, INC.**  
**STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY**  
**FOR THE YEAR ENDED DECEMBER 31, 2004**

	Preferred Stock						Accumulated Deficit	Total
	Series A		Series B		Common Stock			
	Number of Shares	Amount	Number of Shares	Amount	Number of Shares	Amount		
Balance at December 31, 2003	88,144	\$ 308,500	80,000	\$ 118,960	18,280,085	\$ 367,800	\$ (268,902)	\$ 526,358
Net income	-	-	-	-	-	-	139,509	139,509
Balance at December 31, 2004	88,144	\$ 308,500	80,000	\$ 118,960	18,280,085	\$ 367,800	\$ (129,393)	\$ 665,867

See independent auditors' report and accompanying notes

**PEYTON, CHANDLER & SULLIVAN, INC.**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED DECEMBER 31, 2004**

Cash flows from operating activities:	
Net income	\$ 139,509
Adjustments to reconcile net income to net cash used by operating activities:	
Depreciation	27,979
Allowance for doubtful accounts	(15,000)
Unrealized gain on securities	(733,850)
Realized gain on securities	(227,197)
Changes in operating assets and liabilities:	
(Increase) decrease in assets:	
Accounts receivable	22,828
Prepaid expenses	1,564
Deposits	1,600
Deferred tax asset	103,000
Increase (decrease) in liabilities:	
Accounts payable and accrued liabilities	51,459
Bank overdraft	(6,629)
Net cash used by operating activities	<u>(634,737)</u>
Cash flows from investing activities:	
Advances on investment	75,330
Securities earned	(16,050)
Proceeds from the sale of securities	585,962
Purchase of property and equipment	<u>(8,798)</u>
Net cash provided by investing activities	<u>636,444</u>
Net increase in cash	1,707
Cash, beginning of the year	<u>147</u>
Cash, end of the year	<u>\$ 1,854</u>
<b>Supplemental disclosure of cash flow information:</b>	
Cash paid during the year for:	
Income taxes	<u>\$ 800</u>

See independent auditors' report and accompanying notes



**PEYTON, CHANDLER & SULLIVAN, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2004**

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**1. ORGANIZATION**

Peyton, Chandler & Sullivan, Inc. (the Company), is a registered broker/dealer effective as of November 5, 2001, and all securities transactions for the accounts of its customers are cleared by another broker/dealer on a fully disclosed basis. The Company is licensed to engage in the following types of business: broker or dealer retailing corporate equities, broker or dealer retailing corporate debt securities, underwriting or selling group participant, mutual fund retailer, U.S. government securities dealer, broker or dealer selling variable life insurance or annuities and private placement of securities.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Use of Estimates**

The preparation of financial statements is in conformity with accounting principles generally accepted in the United States of America which requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Securities Transactions**

Customer commission income and related commission and clearing expenses are recorded on a trade date basis.

**Impairment of Long-Lived Assets**

The Company reviews the carrying values of its long-lived and intangible assets for possible impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. No impairment losses were recorded in 2004 .

**Property and Equipment**

Depreciation is computed using the straight-line method over the estimated useful lives; property and equipment are depreciated over 5 and 7 year. Depreciation expense for the year ended December 31, 2004 is \$27,979.

**PEYTON, CHANDLER & SULLIVAN, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2004**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Income Taxes**

Deferred income taxes are reported using the liability method. Deferred tax assets are recognized for deductible temporary differences and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates in the date of enactment.

**Fair Value of Financial Instruments**

Substantially all of the Company's financial instruments are carried at fair value. Receivables and payables are carried at cost or cost plus accrued interest, which approximate fair value.

**3. SECURITIES OWNED**

The Company's securities investments that are bought and held principally for the purpose of selling them in the near term are classified as trading securities. Trading securities are recorded at fair value on the balance sheet in current assets, with the change in fair value during the period included in revenues.

	<b>For the year ended December 31, 2004</b>		
	<b>Gross Unrealized Gain</b>	<b>Gross Unrealized Loss</b>	<b>Fair Value</b>
Trading securities:			
Marketable equity securities	\$ 733,850	\$ -	\$ 524,675

Realized gains and losses are determined on the basis of actual results on investments. During 2004, sales proceeds and gross realized gain on marketable securities were:

Sales proceeds	\$ 585,962
Gross realized gain	\$ 227,197

**PEYTON, CHANDLER & SULLIVAN, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2004**

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**4. PROPERTY AND EQUIPMENT**

Property and equipment consist of the following at December 31, 2004:

Office furniture and equipment	\$ 129,067
Automobile	<u>51,240</u>
	180,307
Less: accumulated depreciation	<u>(77,315)</u>
	<u>\$ 102,992</u>

**5. PREFERRED STOCK**

**Convertible Series A Preferred Stock**

The features of the Convertible Series A Preferred Stock include a) a liquidation preference equal to the original purchase price, b) a right to convert the shares to Common Stock at a conversion rate of the original purchase price divided by the conversion price, c) automatic conversion into common stock upon the earlier of, a public offering of common stock of not less than \$10,000,000, the merger or consolidation of the Company with any other corporation for aggregate consideration of more than \$10.00 per share of common stock, or an election by the holders of at least two-thirds of the then outstanding shares of Convertible Series A Preferred d) antidilutive provisions, e) voting rights equal to the number of shares of Common Stock issuable if the shares were converted, f) dividends payable at 8% per share when and if declared by the Company's Board of Directors, g) registration rights, h) redemption rights at the option of the stockholders and the Company.

**PEYTON, CHANDLER & SULLIVAN, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2004**

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**5. PREFERRED STOCK (Continued)**

**Convertible Series B Preferred Stock**

The features of the Convertible Series B Preferred Stock include a) a liquidation preference equal to the original purchase price, b) a right to convert the shares to Common Stock at a conversion rate of the original purchase price divided by the conversion price, c) automatic conversion into common stock upon the earlier of, a public offering of common stock of not less than \$10,000,000, the merger or consolidation of the Company with any other corporation for aggregate consideration of more than \$10.00 per share of common stock, or an election by the holders of at least two-thirds of the then outstanding shares of Convertible Series B Preferred d) antidilutive provisions, e) voting rights equal to the number of shares of Common Stock issuable if the shares were converted, f) dividends payable at a variable rate of 10% of the profits of the market making desk with the institutional desk and a minimum of 8% per share when and if declared by the Company's Board of Directors, g) registration rights, h) redemption rights at the option of the Company.

**6. INCOME TAXES**

The components of the provision for income taxes is as follows for the year ended December 31, 2004:

Current tax expense:

Federal	\$ -
State	800
	<hr/>
	800

Deferred tax expense:

Federal	72,000
State	31,000
	<hr/>
	103,000

Total provision for income taxes	<hr/> <hr/>
	\$ 103,800

**PEYTON, CHANDLER & SULLIVAN, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2004**

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6. **INCOME TAXES** (Continued)

The reconciliation of the effective income tax rate to the Federal statutory rate for the year ended December 31, 2004 is as follows:

Federal income tax rate	34.0%
State income tax rate, net of Federal benefit	<u>5.8%</u>
Effective income tax rate	<u><u>39.8%</u></u>

At December 31, 2004, the Company had federal net carry-forward losses of approximately \$139,000 and California net carry-forward losses of \$244,000. Federal net operating loss carry-forwards expire in 2021 through 2023. California net operating loss carry-forwards expire in 2011 through 2013.

Deferred tax assets and liabilities reflect the net tax effect of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and amounts used for income tax purposes. Significant components of the Company's deferred tax assets and liabilities at December 31, 2004 are as follows:

Deferred income tax asset:	
Net operating loss carry-forwards	<u>\$ 60,000</u>
	<u>60,000</u>
Deferred income tax liability	<u>-</u>
Deferred income tax asset, net before valuation allowance	60,000
Less: valuation allowance	<u>-</u>
Deferred income tax asset, net	<u><u>\$ 60,000</u></u>

**PEYTON, CHANDLER & SULLIVAN, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2004**

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**7. COMMITMENTS AND CONTINGENT LIABILITIES**

**Settlement of Securities Transactions**

The Company is obligated to settle transactions with brokers and other financial institutions even if its customers fail to meet their obligations to the Company. Customers are required to complete their transactions on the settlement date, generally three business days after trade date. If customers do not fulfill their contractual obligations, the Company may incur losses. The Company has established procedures to reduce this risk by requiring deposits from customers for certain types of trades.

**Leases**

The Company leased its premises under a one year operating lease which expired on August 31, 2004. The Company is on a month to month lease and pays \$1,260 per month.

Rent expense for the year ended December 31, 2004 was \$15,460.

**Litigation**

The Company is involved in two disputes for breach of employment contract. The Company has filed cross-complaints in both cases and intends to vigorously defend its position.

The Company is a defendant in a lawsuit for breach of contract to repurchase Preferred B Shares of the Company. The shareholder states Preferred B Shares had been sold to them for \$110,000. The suit asks for damages in excess of \$25,000. The Company has made extensive efforts to resolve the claim without further litigation.

The Company has other legal actions occurring in the ordinary course of business. The Company denies any wrongdoing and intends to vigorously defend these actions. According to the Company's legal counsel, the Company is in good defensible positions, and believes the resolution of these various legal actions will not result in any material adverse effect on the Company's financial condition.

**8. CONCENTRATION OF CREDIT RISK**

The Company is engaged in various trading and brokerage activities. Counterparties to these activities primarily include broker/dealers, banks and other financial institutions. In the event counterparties do not fulfill their obligations, the Company may be exposed to risk. The risk of default depends on the creditworthiness of the counterparty or issuer of the instrument. It is the Company's policy to review, as necessary, the credit standing of each counterparty with which it conducts business.

**PEYTON, CHANDLER & SULLIVAN, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2004**

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**9. NET CAPITAL REQUIREMENTS**

The Company is subject to the Securities and Exchange Commission's Uniform Net Capital Rule (Rule 15c3-1), which requires the maintenance of minimum net capital and that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1. At December 31, 2004, the Company had net capital of \$340,013, which was \$335,013 in excess of its required net capital of \$5,000. The Company's ratio of aggregate indebtedness to net capital was 0.24 to 1.

**10. RESERVE REQUIREMENTS FOR BROKERS OR DEALERS**

The Company is exempt from the provisions of Rule 15c3-3 (pursuant to paragraph (k)(2)(ii) of such rule) of the Securities Exchange Act of 1934 as an introducing broker or dealer that carries no customer accounts, promptly transmits all customer funds and delivers all customer securities received to the clearing broker, and does not otherwise hold funds or securities of customers or dealers. Because of such exemption, the Company is not required to prepare a determination of reserve requirement for brokers or dealers.

**11. RETIREMENT PLAN**

The Company sponsors a profit sharing plan. Company accrued a contribution to the plan of \$35,000 for 2004.

**SUPPLEMENTAL SCHEDULES**



**PEYTON, CHANDLER & SULLIVAN, INC.**  
**SCHEDULE I**  
**COMPUTATION OF NET CAPITAL UNDER RULE 15c3-1 OF**  
**THE SECURITIES AND EXCHANGE COMMISSION**  
**DECEMBER 31, 2004**

Net capital:		
Total stockholders' equity from statement of financial condition		\$ 665,867
Deductions:		
Non-allowable assets:		
Deferred tax asset	\$ 60,000	
Restricted marketable securities	23,000	
Prepaid expenses	2,685	
Property and equipment	102,992	188,677
Tentative net capital		477,190
Haircuts		137,177
Net capital		\$ 340,013
Total aggregate indebtedness		\$ 81,550
Minimum net capital required		\$ 5,000
Excess net capital		\$ 335,013
Ratio of aggregate indebtedness to net capital		0.24 to 1
Reconciliation with Company's computation (included in Part II-A of form X-17A-5 as of December 31, 2004):		
Net capital as reported in Company's Part II-A (unaudited) FOCUS report		\$ 399,419
Audit adjustment for accounts payable		(3,219)
Audit adjustment for accrued liabilities		(55,127)
Audit adjustment for accumulated depreciation		3,778
Audit adjustment for prepaid expenses		464
Audit adjustment to correct retained earnings		22,147
Difference between disallowed assets reported and disallowed assets audited		(23,000)
Difference between ownership equity reported on FOCUS and ownership equity reported on books		(2,717)
Difference between haircuts reported and haircuts recalculated		(1,732)
Net capital per above		\$ 340,013

**PEYTON, CHANDLER & SULLIVAN, INC.**  
**SCHEDULE II**  
**COMPUTATION FOR DETERMINATION OF**  
**RESERVE REQUIREMENTS UNDER RULE 15c3-3 OF**  
**THE SECURITIES AND EXCHANGE COMMISSION**  
**DECEMBER 31, 2004**

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Not applicable.

**PEYTON, CHANDLER & SULLIVAN, INC.**  
**SCHEDULE III**  
**INFORMATION RELATING TO POSSESSION OR CONTROL**  
**REQUIREMENTS UNDER RULE 15c3-3 OF**  
**THE SECURITIES AND EXCHANGE COMMISSION**  
**FOR THE YEAR ENDED DECEMBER 31, 2004**

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Not applicable.

**PEYTON, CHANDLER & SULLIVAN, INC.**  
**SCHEDULE IV**  
**SCHEDULE OF SEGREGATION REQUIREMENTS AND**  
**FUNDS IN SEGREGATION FOR CUSTOMERS'**  
**REGULATED COMMODITY FUTURES AND OPTIONS ACCOUNTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2004**

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Not applicable.

**MENDOZA  
BERGER  
COMPANY, L.L.P.**

Certified Public Accountants

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**Independent Auditors' Report on Internal Control Required by SEC Rule 17a-5**

Board of Directors  
Peyton, Chandler & Sullivan, Inc.  
Roseville, California

In planning and performing our audit of the financial statements and supplemental schedules of Peyton, Chandler & Sullivan, Inc. (the Company), for the year ended December 31, 2004, we considered its internal control, including control activities for safeguarding securities, in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control.

Also, as required by rule 17a-5(g)(1) of the Securities Exchange Commission (SEC), we have made a study of the practices and procedures followed by the Company including tests of such practices and procedures that we considered relevant to the objectives stated in rule 17a-5(g) in making the periodic computations of aggregate indebtedness (or aggregate debits) and net capital under rule 17a-3(a)(11) and for determining compliance with the exemptive provisions of rule 15c3-3. Because the Company does not carry securities accounts for customers or perform custodial functions relating to customer securities, we did not review the practices and procedures followed by the Company in any of the following:

1. Making quarterly securities examinations, counts, verifications, and comparisons
2. Recordation of differences required by rule 17a-13
3. Complying with the requirements for prompt payment for securities under Section 8 of Federal Reserve Regulation T of the Board of Governors of the Federal Reserve System

The management of the Company is responsible for establishing and maintaining internal control and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of controls and of the practices and procedures referred to in the preceding paragraph and to assess whether those practices and procedures can be expected to achieve the SEC's above-mentioned objectives. Two of the objectives of internal control and the practices and procedures are to provide management with reasonable but not absolute assurance that assets for which the Company has responsibility are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with accounting principles generally accepted in the United States of

America. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

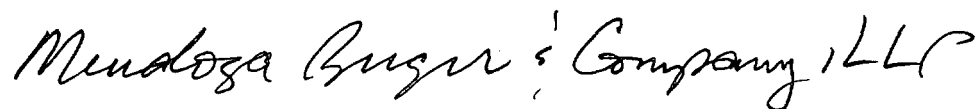
Because of inherent limitations in internal control or the practices and procedures referred to above, error or fraud may occur and not be detected. Also, projection of any evaluation of them to future periods is subject to the risk that they may become inadequate because of changes in conditions or that the effectiveness of their design and operation may deteriorate.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of the specific internal control components does not reduce to a relatively low level the risk that error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted no matters involving internal control, including control activities for safeguarding securities, that we consider to be material weaknesses as defined above.

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the SEC to be adequate for its purposes in accordance with the Securities Exchange Act of 1934 and related regulations, and that practices and procedures that do not accomplish such objectives in all material respects indicate a material inadequacy for such purposes. Based on this understanding and on our study, we believe that the Company's practices and procedures were adequate at December 31, 2004, to meet the SEC's objectives.

This report is intended solely for the use of the Board of Directors, management, the SEC, and other regulatory agencies that rely on rule 17a-5(g) under the Securities Exchange Act of 1934 in their regulation of registered brokers and dealers, and is not intended to be and should not be used by anyone other than these specified parties.

**Mendoza Berger & Company, LLP**

A handwritten signature in cursive script that reads "Mendoza Berger & Company, LLP".

Irvine, California  
February 10, 2005